Special 6-Page Issue: On China and The Dollar Crisis

Epitaph For A Law And Order Administration

How can killings in America be "unnecessary, unwarranted and inexcusable" [as Attorney General Mitchell himself said the Kent State killings were] and yet no effort made to prosecute?

—Joseph Kelner, counsel for the family of Jeffrey Miller, one of the four students who died at Kent State.

I. F. Stone's Bi-Weekly

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What's Nixon Up To?

When I was in England while vacationing abroad I was asked whether I had any presentiment of Nixon's decision to visit Peking. "Not exactly," I replied modestly, "but of course I knew China was there and that Nixon was President and sooner or later—give or take a hundred years —I suppose I would have to put two and two together." After all, there is nothing that a good newspaperman like any Hegelian or Marxist historian cannot foresee as inevitable once it has happened. Nixon's turnabout on China, like his turnabout on economic policy, if taken to heart, should prove spiritually salutary for our know-it-all journalistic profession. It is good for us to be humbled and it makes the job of observing Washington exhilarating to be reminded again how unpredictable human behavior can be. The moving complexity of events can slip out of the most plausible explanatory equations we construct and take sudden turns in a new and sometimes hopeful direction.

Not Since The Nazi-Soviet Pact

The Peking-Washington rapprochement is the most startling event of its kind since the Nazi-Soviet pact, and like it a reminder of how superficial a guide ideology can prove to be in foreign policy. As for Nixon's New Economic Policy, it is as if Herbert Hoover, instead of Franklin D. Roosevelt, had taken the United States off the gold standard and given himself a chance to win the election of 1932. To return home after such 180 degree turns in foreign and domestic policy makes one feel like Rip Van Winkle. Nixon seems to have knocked his critics and opponents off their rockers. There is an undercurrent of hysteria in some of the comment emanating from Democrats, laborites and Leftists. He has not only upset their pre-election calculations but—more unnerving—the stereotypes in which we all thought we could comfortably analyze and forecast Nixon's policies. Nothing can be so painful as an ingrown cliché.

On China policy, there *were* hints of a change. Checking back over them, however, I can understand why none of us took them seriously. The earliest was Nixon's article "Asia After Vietnam" in the October 1967 issue of *Foreign Affairs*. Any copies in the libraries of Mao's China had best be put under lock and key before Nixon's arrival. Nixon complained in the article that "In Japan, public opinion still lags behind official awareness of military needs" but hoped that "the solidifying awareness of China's threat" would make it possible to convert the Asian and Pacific Council under Japanese leadership into a military pact for the containment of China. The article, it is true, called for eventual readmission of China into the community of nations but only after "dynamic detoxification . . . to help draw off the poison from the Thoughts of Mao." That one sentence, put in posters on Peking's walls, could start the Cultural Revolution all over again. "Dealing with Red China," Nixon wrote, "is something like trying to cope with the more explosive ghetto elements in our own country." The comparison, if it got out, would not endear him to the Chinese, who have the world's oldest and most snobbish racial superiority complex. We may be forgiven for having failed to see in this article premonitions of a revolutionary reversal in China policy.

Happy Campaign Days In Saigon

Saigon (Reuter)—Stick-swinging South Vietnamese broke up an election rally behind Saigon's national assembly today and arrested an antigovernment candidate for this Sunday's lower house election and at least 10 students. Under arrest was Iran Tuan Nham, who called the rally to protest confiscation and defacing of his campaign posters that depict President Thieu with a Hitler mustache. Prime Minister Tran Thien Khiem earlier this week ordered the posters confiscated. Eyewitnesses claimed Nham was badly beaten before being thrown into a police truck and driven away.

—Washington Post, *Aug. 26.*

But our own ideological blinkers and frozen stereotypes of Nixon were to blame for failing to sit up and take notice when Edgar Snow in *Life* last April reported that Mao was ready to welcome Nixon in China and when Nixon replied coyly a few days later that he hoped to visit "mainland China sometime in some capacity." Even with hindsight, however, one can find no hints at all that a turnabout in economic policy was also brewing. Three days before Kissinger landed in Peking, Nixon was dropping more hints on China in his Kansas City briefing for news executives July 6 but on economic policy he seemed as firm as the U.S. Chamber of Commerce. "It, of course, has not gone unnoticed," he told the editors, "that many at this time tend to throw up their hands and conclude that the only answer to the problem is to go to wage and price controls." Who could have guessed that Nixon would soon swing over to the Thoughts of Chairman John Kenneth Galbraith?

I remain as skeptical as ever about Nixon's motives in both turnarounds, and think that now more than ever he needs watching. But Nixon deserves credit on both. *To*

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govern is to stop drifting. Nixon has made two hard and fundamental decisions. He has changed the course of history at home and abroad by recognizing, for whatever reasons and whatever motives, two realities. One is China. The other is the need for price and wage control at home (and a new monetary relationship abroad) to combat inflation and set the stage for recovery. Kennedy and Johnson had their chance on China and lacked the courage. Democrats have been asking for wage and price controls; Nixon had the nerve to put them into effect. No one can foresee the consequences of these two turnarounds. We can only be sure that neither the world nor our country will be the same again. If liberal Democrats come to power next year, their maneuverability at home and abroad will have been immensely increased because Nixon broke the ice for them with China and got the business community to accept the idea of controls and of going off gold. This is no small contribution.

Still Avoiding Reality In Vietnam

Nixon admired de Gaulle, and these moves in their magnitude begin to recall the great Frenchman, but the differences may prove crucial. De Gaulle bit the bullet on Algeria and, to the discomfiture of the military who brought him to power, decided on complete withdrawal, recognizing the war as hopeless. Nixon on the other hand is still trying to avoid facing up to our Algeria. He has finally recognized the realities in China but only in the hope that he might thereby avoid the realities in Vietnam. Nixon in Vietnam, like the French rightists in Algeria, has always regarded the national rebellion as essentially part of a world Communist conspiracy. I have always thought that his secret plan to end the war was to make a deal at the head office in Moscow. The most revealing dispatch on the China turnabout that I saw while abroad was Henry Brandon's from San Clemente in the London *Sunday Times* of July 18.

Nixon has always been more open with British than American newsmen no doubt because he feels, quite rightly, that we are all biased against him. Brandon's dispatch unmistakably reflected a high White House briefing. "Shortly after his inauguration," Brandon wrote, "Mr. Nixon approached the Soviet Union in the hope that it would aid him in his negotiations with Hanoi. But the Russians proved without influence. Almost at the same time, he instructed Dr. Kissinger to initiate secret approaches to Peking." Brandon said Kissinger never gave up hope of a negotiated settlement "and now he and the President appear convinced that they can get a better bargain than the North Vietnamese offered in their seven-point plan without running the risk of suffering President Johnson's fate." Brandon was told that the first of the seven points put forward by the North Vietnamese, "which asks the U.S. to set an end to its military involvement and to give up its 'Vietnamization' policy, is considered quite unacceptable." This indicates that Nixon is holding out for a Korean solution, for a satellite regime in Saigon, a deal he hopes to buy in Peking.

It is difficult to see the outcome but it would be foolish to believe—on ideological grounds—that Nixon might not emerge with some kind of arrangement, especially if the price he offers Peking is high enough. I doubt that Peking, any more than Moscow, could make a simple deal of this kind, but there are intermediate possibilities that Peking might offer Hanoi. The trouble is that the desperate last resort of going to Peking has itself rendered the situation more unstable. Nixon is like a man trying to navigate in a quicksand. Everywhere in Asia the projected visit has signalled the end of China's containment. Accommodation is the order of the day. The thaw has even reached Korea, where Seoul has for the first time since the Korean war agreed through the Red Cross to talks which would begin to open some holes in the Iron Curtain on the 38th Parallel. How in such an atmosphere does one erect a new hard-line regime on the 17th parallel? Kissinger's trip to Peking made Thieu an

How Do You Improve Competitive Spirit By Reducing Competition?

Q. Mr. Secretary, what about denying millions of Americans the lower prices of foreign imports? I think of automobiles, Japanese televisions, the electronics industry. Won't this result, really, in an increase in the cost of those items?

A. Yes. The imposition of the 10% import surcharge is going to increase the cost of imported items into the United States. That is precisely the point; to try to provide a means and a time where American industry and American workmen can regain their competitive spirit and their competitive capabilities.

—Secretary Connally at Press conference, Aug. 16.

The U.S. Seems To Feel That International Law Is Only For Others Not Ourselves

Our present attitude toward international law and China reflects our overall foreign policy, which, as Earl C. Ravenal has put it, is based on "the principle that this nation has a privileged purpose that it must impress on the rest of the world." Let me illustrate what I mean by reference to a recent *New York Times* report that, in order to avoid any incident that might interfere with President Nixon's forthcoming visit to Peking, the Administration has suspended flights over China by manned SR-71 spy planes and unmanned reconnaissance drones. American reconnaissance satellites will continue their missions over China, it was reported, because such missions are considered relatively unprovocative in view of the fact that they take place well above China's airspace. Certain Administration sources, while admitting that the SR-71 has been used to overfly North Korea, have denied its use over China, but even they concede that the drones have until recently been entering China's airspace.

On the face of things, the suspension of whatever reconnaissance flights have been taking place in China's airspace seems like a statesmanlike act that will eliminate the possibility of repeating the 1960 U-2 fiasco that cancelled the Eisenhower-Khrushchev summit conference. What virtually no one seems to recognize is that announcement of the suspension of flights implicitly confirms that the United States has for years been systematically violating Chinese airspace contrary to the accepted rules of international law. This is no news to Peking, of course. Indeed, it has issued almost 500 protests against such infractions, and it has shot down a number of drones.

One can imagine the outrage of American officials and public opinion if Chinese military aircraft were repeatedly violating our airspace. Yet somehow it seems right to Americans that China—and North Vietnam, North Korea, Cuba and other Communist states—should abide by the rules of the world community while tolerating our failure to do so, unless, of course, for reasons of expediency we choose to honor the rules on occasion.

—Jerome Cohen, East Asian Legal Studies, Harvard Law School, before the Joint Economic Committee, August 11.

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anachronism. To South Vietnam's shrewd and subtle politicians, it must have spelled the danger of assuming American firmness in holding to an old style anti-Communist line, the wisdom of shifting toward a position on which a compromise regime satisfactory to the NLF could be erected. The political uncertainties accumulating in the wake of the Minh and Ky withdrawals from the Presidential race may cut the ground from under any planning by Washington *or* Peking.

How The Gamble Paid Off

Yet the China gamble has already paid dividends to both sides. It took Nixon off the hook of Hanoi's offer to begin releasing prisoners as soon as a date for total withdrawal was set, and negotiated withdrawals began. In the euphoria which the news from Peking created, the peace talks were relegated to the back pages, the prisoners forgotten. Nixon was saved at the very last moment by the bell from Peking—saved from peace in Vietnam. If a Vietnam settlement were Peking's No. 1 priority, it could have delayed the Kissinger visit until an agreement had been made at Paris. Chou En-lai gave Nixon precious time, in which Nixon had hoped and still hopes somehow to keep the Thieu regime in power. What Peking was promised no one knows. But one reward was the rush of countries like Iran and Turkey in the U.S. orbit to recognize the Communist regime and to cut ties with Chiang Kai-shek's.

How this will show up in the votes at the United Nations is murky. "For ways that are dark and for tricks that are vain," Billy Graham's pious White House parishioner outdoes any heathen Chinee. Nixon's two-China policy, which both Peking and Taipei reject, has everybody bewildered and suspicious. But it is hard to believe that some understanding has not already been reached on this. Clearly a resolution of the question unacceptable to Peking would mean no trip for Nixon. Two such experienced diplomats as Chou En-lai and Kissinger, meeting after so many months of secret preparations, must have dealt with this and other problems between the two countries. They must have discussed their respective entangling alliances and embarrassments. They must have canvassed what each side would have to go on saying publicly to satisfy its own satellites and to maintain some semblance of ideological consistency. There must have been some agreement as to the necessary leeway each side would have to be allowed, ours in dealing with Chiang Kai-shek, theirs in dealing with Hanoi.

We may be sure that the stance in public will not be the same as in private, and that neither side would have risked publicly arranging for a Nixon visit without a pretty firm understanding. I find it very hard to believe that this is based on a total U.S. withdrawal from Asia; if that were China's intention, it could have waited at least until we had set a date for total withdrawal from Vietnam. It seems clear to me that China in this balance of power game wants a U.S. counterweight against Russia and Japan. Last time that Western and American imperialism were swept out of Asia, China found itself alone with Japan. China may prefer a residual U.S. presence, even in Southeast Asia. Peking may fear that Russia's support of the Lon Nol government in Cambodia means a Russian foothold south of China. I think the overriding and immediate Chinese fear is of Russia and the longer term fear of Japan. How can the U.S. provide some help against either if it gets entirely out of Asia? The Nixon doctrine, of letting Asians contain China, may shift to a new Pacific role friendly to Peking in which we exploit Russia's fear of China and Japan's anxieties about China as a means of improving our bargaining power with both sides.

Aerospace Already Eyes The China Market

Interest in Communist China as a potential market for U.S. commercial aircraft is growing on Capitol Hill. With an eye on this prospect, Congress may equip President Nixon with authority to arrange trade agreements on his coming trip to mainland China scheduled for sometime before next May.

—Aviation Week and Space Technology, *August 23.*

The Russo-Chinese enmity is now the deepest split among the great powers, and next to the Indo-Pakistan dispute represents the biggest threat of a major war; the latter might even ignite the former. Natural fears have escalated to paranoid proportions on both sides. Both are proceeding on the old axiom of power politics that the enemy of my enemy is my friend. Everywhere from the Balkans to the Sudan to Bengal, China is pursuing an anti-Soviet policy irrespective of ideological or human considerations. Neither the bloodthirsty anti-Communism in the Sudan, Tito's "revisionism" nor West Pakistani inhumanity deters Peking's policy, as it did not deter the rapprochement with Nixon though he had long been its No. 1 demon. The Chinese may well see the Czech invasion as a warning. They do not underestimate the Kremlin's potential for brutal power politics. They fear above all a preemptive nuclear strike.

These fears will not be lessened by the leak of the underground Soviet newspaper, "Political Diary", to the *New York Times* and the *Washington Post.* The latter (Aug. 22) quoted a passage which will inflame Peking's anxieties. It is from a private discussion in which "an academician, a government official and a reserve officer", after the Sino-Soviet border dispute flared up in 1969, called war with China inevitable and advocated a first strike to destroy China's nuclear rocket industry and bases. Peking's secret services must know a great deal more about this than the West does. It must seem essential to China to build up its own nuclear deterrent as rapidly as possible. U.S. aid could make a huge difference even if it only took the indirect form of speeding Chinese industrialization. Some very enticing prospects are implicit in the American rapprochement, with U.S. industry in need of new markets. Kissinger did not go empty-handed.

Russia's Oldest Nightmare

On the other side, fear of China seems to be the one bond between the Soviet government and dissident intellectuals. The Yellow Peril is Russia's oldest nightmare; the prospect

Words To Remember When We Ask Japan To Share Our Military Burdens In Asia

Our military expenditures in Asia have largely been in response to a non-threat. Moreover, to some extent, they have actually provoked a latent Chinese military defense posture which in turn we can use to justify further defense expenditures.

—Prof. Allen S. Whiting, once chief of research and intelligence in the State Dept., now teaching at the Center for Chinese Studies at the University of Michigan, testifying before the Joint Economic Committee of Congress, August 11.

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of a full grown nuclear China with four times the population of the Soviet Union—and *irredenta* between them—is its latest form. The intellectuals who looked hopefully to China in 1956 when Mao Tse-tung began to bid a hundred flowers contend now see the Chinese regime as worse even than Stalinism in its cult of personality and its draconian thought control. The two regimes are separated by the biggest gulf of all in being rival branches of the same mother church. Historically in such situations either side has preferred the pagan unbeliever without to the schismatic within. China now commands sympathy as the underdog but what happens when she is top dog? If the U.S. rapprochement forecloses a Soviet nuclear first strike, it will be more than justified. If a new U.S. foreign policy thereupon seeks reconciliation rather than the exploitation of mutual Sino-Soviet and Sino-Japanese fears, all mankind will be in our debt. It must never be forgotten that we are dealing here with that old balance of power politics which brought on World Wars I and II and which the United Nations, like the League of Nations before it, was intended to replace by a safer world order.

New Excuse For Pax Americana?

History teaches us that old enmities between nations usually are resolved only in the rise of new ones. The causes of war, instead of being removed, are only changed. The growing jealousy in American industry of Japanese commercial progress begins unpleasantly to recall English jealousy of German trade before 1914. It will be a pity if the newly opened door to China only replaces old tensions with new, providing fresh excuse for playing the policeman's role in East Asia and for a bigger arms budget, especially for the Navy. The Pentagon doesn't really care whom it will purport to defend, so long as it has an excuse to continue the Pax Americana in any form. Here we come to the heart of the dollar crisis.

II

As Senator McGovern said here at a breakfast with financial writers Aug. 24, the single biggest contribution President Nixon could have made to U.S. economic health at home and abroad would have been an announcement that he was ending the war in Vietnam and diverting the savings into public purposes. Instead, while welfare reform is dropped, the Pentagon is slated for an extra $3 billion. The financing of the Vietnam war (unlike the Korean war) by inflation and without excess profits taxes has been pricing U.S. goods out of the export market. In the early 60s, our price rise was generally the same as in other industrial countries. From 1965 to 1970, our export prices rose 16 percent while those of Western Europe rose 10 percent and those of Japan only 9 percent.

The hemorrhage of the dollar is due to war, militarism and imperialism. This becomes clear if one takes the balance of payments for the 11 years 1960 to 1970 inclusive. In those 11 years the total net imbalance of payments was $17 billion. But the total net dollar outflow for military purposes in the same period was over $30 billion. Without the dollars spent abroad on the war and the Pax Americana, there would have been a surplus of $13 billion.

The arms race we led and stimulated has also had its effect in lessening American capacity to compete in world markets. Research and development money, and—more important—research and development talent, have gone disproportionately into war and space industry. One of the harmful side-effects has been the growth of the cost-plus mentality. The Vietnam war exported inflation and now we are trying to export unemployment. We are forcing our foreign competitors to share the burdens of the maladjustments we created by accepting a revaluation upward of their currencies, especially of the mark and yen. This is asking them to accept a price disadvantage in the world export markets. The monetary situation is extraordinarily complex and at some crucial points veers off into sheer metaphysics. There

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Nader: Surest Way To Lower Prices

As a longer range solution to the inflation problem the Nixon administration should lead an antitrust drive on the corporate giants which dominate our economy. Only when their monopoly powers are uprooted can the structural tendency toward high prices and, hence inflation, be curbed. This deconcentration effort, in the eyes of most industrial economists, can only have the effect of lowering prices across the board; prices will then be moored to costs, as they are supposed to be in competitive capitalism, and not to monopoly power. This is well known to the President's advisors at the Antitrust Division and to the Federal Trade Commission. As Federal Trade Commission studies show, if our highly concentrated industries were decentralized until the four largest firms controlled 40% or less of industry sales, prices would fall by 25% or more. Only then could the President fulfill his own proclamation, upon issuing his economic edict, that "we welcome competition, because America is at her greatest when she is called upon to compete."

—Ralph Nader on Nixon's freeze, August 16.

How U.S. Policy Forced China, Despite Its Poverty, To Become A Nuclear Power

In terms of the Chinese nuclear story, I think the development of Chinese nuclear weapons is one of the most misperceived and misunderstood stories of this country. We threatened the Chinese with nuclear weapons in the Korean War in the spring of 1953. President Eisenhower and Secretary Dulles sent nuclear threats to Peking in February and May of that year, and forced their acceptance of our terms. In 1970 we deployed, as I indicated in my testimony, nuclear missiles that could fire 600 miles into Chinese territory from Taiwan. It was not until Mao Tse-tung went to Moscow in 1957 that he won from the Russians any kind of nuclear weapons assistance program. In 1958 we gave the Nationalists 8-inch howitzers on the island of Quemoy and indicated that they could have nuclear heads in them to wipe out the Chinese batteries on the mainland. The Russians responded to the Chinese demand and for years gave them important ingredients in what has subsequently become an independent nuclear capability.

When we say, why would the Chinese go for nuclear weapons, while it may be the ticket of equality that Professor Cohen has referred to, but it also has had an important strategic response to our strategic threat. Former Secretary of State Dean Rusk said only a month ago: "I cannot imagine a war with China that would not be nuclear." If the U.S. leadership assumes that nuclear weapons are an option against China, then surely China is going to have to develop some nuclear deterrent capability at least against the bases in the Western Pacific which they can hold hostage against a first strike from us.

—Prof. Whiting: Joint Economic Committee, Aug. 11.

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are many valid ways of looking at it. But this is one of them. A settlement will be made easier if the U.S. public learns to see it as it looks from the other side.

"Protecting The Free World"

While we let the military spend billions on the excuse that they are defending "the free world", we never stop to consult either the other capitalist powers or the developing nations when we embark on adventures dangerous to them. Nothing Moscow or Peking has ever done or was likely to do has been anywhere near as harmful in its long-term effects as the Vietnam war. Its economic, political and military repercussions have been intensely destabilizing elsewhere. The leader of the free world takes the other capitalist nations up and down the roller coaster as we please. The 10 percent surcharge on imports, in its arrogance and its disregard for our signed pledges in GATT, is characteristic.

Our country is still the greatest and the richest nation on earth. We should learn to wear the mantle of power with commensurate magnanimity. Otherwise we can do great harm to others and ourselves. It does not help to prepare the public for the drastic changes which lie ahead in our economic arrangements, domestic and foreign, to have the President turn the dollar crisis into a melodrama and trot out a bogeyman—the foreign exchange speculator—as the villain. It is all the harder to stomach when Nixon for months has been stimulating stock exchange speculation at home to further his reelection. The emphasis on the foreign exchange speculator is on a par with Nixon's old-time Red scares. It was also in keeping with the shallow, self-congratulatory Madison Avenue soap advertising style of the August 15 TV address. How refreshing, how confidence-creating, it would have been if Nixon had confessed that we were compelled to embark on uncharted monetary and economic seas, and asked public support for the sacrifices and maladjustments entailed! It is the low style and tone, so unlike de Gaulle, which intensifies old biases even when Nixon basically does the right thing.

The "gnomes of Zurich" are hobgoblins for morons. Dollar speculation abroad is not only a minor factor in the picture but a necessary part of the free market mechanisms on which world trade depends. The biggest trading nation on earth cannot afford an electorate brought up on xenophobic bed-time stories. The situation, as Nixon pictured it, was all the fault of those wicked foreigners. He said we had spent $143 billion in foreign aid yet those ingrates abroad were hurting our trade with "unfair exchange rates." No mention, of course, that those billions came home to enrich us and scant mention of the part played in depressing the dollar by our unwise fiscal and domestic policies and by the war he continues. A new currency setup, long overdue, requires a new public sophistication not a fresh set of imaginary grievances. Part of the problem with the mark and yen, for example, is that we deliberately under-valued them after World War II to help their recovery. Our compensation was an overvalued dollar with which we expanded our business empire abroad enormously at a discount. Our foreign investments have tripled since 1950. In the past 11 years they brought home an average of more than $7 billion a year in earnings.

If we restrict trade, how do foreign countries pay interest and dividends on those investments, and how do they pay for imports from us? Nixon's presentation Aug. 5, as in the July 6 briefing at Kansas City, was one-sided. There has been a phenomenal expansion of trade since World War II from which everybody has benefitted. Japan's sales to us have boomed, but so have our sales to Japan. Japan is now our biggest customer after Canada, taking as much of our exports as France and West Germany combined. The unfavorable balance of trade with Japan is more than compensated by a favorable balance of trade with the Common Market. If we substitute short-sighted bilateral computations and deals for multilateral world market perspectives, everybody's trade will shrink.

The President's 10 percent surcharge on imports carries a reminder of our last experiment in protectionism 40 years ago. His ultimate legal authority for the surcharge stems from, and is limited by, the notorious Hawley-Smoot tariff of 1930. This ill-fated venture into high import barriers to defend the dollar only resulted in deepening the depression. To use the 10 percent surcharge now as "a bargaining tool", is to whet protectionist appetite and risk another episode in

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Under The Surface Of China

Since 1952 campaign has succeeded campaign, each one leaving a great wall in its wake, a wall which estranges one man from another. In such circumstances, no one dares to let off steam even privately in the company of intimate friends, let alone speak his mind in public. Everyone has now learnt the technique of double-talk; what one says is one thing, what one thinks is another.

—Kuang Ming Daily, *June 5, 1957, quoted in Roderick MacFarquhar's* The Hundred Flowers Campaign and the Chinese Intellectuals, *a study of the brief period in which officials and intellectuals were invited to speak their minds in response to a campaign by Mao to rectify the Party's "style of work." The "hundred flowers period" in which he sought to wed John Stuart Mill with Marx remains a warning of the realities which existed then and almost certainly still exist beneath the smooth surface of Chinese thought control.*

Profits Up, Tho Output Down

Q. Mr. Secretary, when you decided to freeze wages, prices and rents did you consider at all freezing profits? If not, why not?

A. There was no authority to freeze dividends, although as you heard the President say last night, he is calling on American businessmen to observe the spirit and letter of it. [The Economic Stabilization Act of 1970 passed by Democratic majorities in Congress limits any freeze to prices, rents, wages and salaries. It did not include dividends, interest or profits—IFS]. Again, we felt that to try to analyze and to make it apply to profits over a 90-day period was not a practical manner of proceeding. We felt that, in controlling prices, the profits of American business have not been that big.

—Secretary of the Treasury Connally, Aug. 16.

To the contrary, First National City Bank of New York reported a few days later in its August letter that corporate earnings in the second quarter of this year were up 11% over the year before, and that the index of after-tax earnings in manufacturing in the second quarter of this year was 18% higher than in 1967 or almost at the all-time high of 119 (1967=100) reached in the 4th quarter of 1968. All this in a sluggish period when output was about 73% of capacity!

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Part of The Democratic Party Now To The Right of Nixon

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beggar-my-neighbor economics. Negotiation is made more complicated by the Administration's linkage of the currency issue with the issues of military costs and trade restrictions.

The Jackson-Meany Axis

A bad political situation is shaping up. Part of the Democratic party and of the labor movement is now to the right of Nixon on certain issues. The Jackson-Meany axis wants a harder line on Vietnam, on China, on the arms race and probably also on protectionism. In closing ranks for 1972, the left wing of the Democratic Party is in danger of being led by demagogy and desire for party unity into positions that lack statesmanship and sense. Our favorite candidate for President, McGovern, has been almost hysterical in his attacks on Nixon's new economic policy. He went so far as to tell the financial writers that he is sorry he voted for the price stabilization bill last summer which gave Nixon authority for the price-wage freeze. He even compared it to the Gulf of Tonkin resolution. But only three days before Nixon's 90-day freeze, McGovern asked for a 6-month freeze. There has been general agreement in the labor movement and in the Democratic party, as in the latest and admirable Proxmire committee report, on the need for an incomes policy if we are to have full employment without unacceptable inflation. Nobody knows quite how to do this but it clearly means some government restraint on big business and big labor, some way to substitute public price-fixing for their private price-fixing.

Nixon with the freeze has made it politically feasible for the Democrats to pursue a new economic policy. If a Democratic President had imposed the freeze, the business community would be in revolt. As on China, it has taken a Republican President to make the break-through. His economic program is weighted heavily on the side of the rich and big business but these are his constituency. The Democratic National Committee in one overwrought statement complained that his was "a Republican program." This was naive and unfair. The fiscal trimmings are Republican and designed to make it palatable to his supporters. But the heart of it—the freeze and the devaluation—was taken over from the Democrats. It is up to the Democrats now to show that they can do the job better. Their task, when Congress meets, is twofold: to revise the fiscal program to increase spending from the bottom and in the public sector, replacing the bonanzas Nixon offers business; and to prepare a long range incomes policy which will also cover interest and profits and be acceptable to labor. Readjusting currency values will not solve the deeper problems behind the dollar crisis, foremost among them the costly momentum of imperialism and militarism. Let Nixon's two major turnabouts on China and the economy remind the Democrats how badly they have underestimated his flexibility or opportunism, call it what you will. He might steal more of the Democratic thunder on the war and on the economy and get himself reelected. *Aug. 28*

On The Eve Of Nixon's Freeze

In a modern full employment economy reasonable price stability can be consistently maintained only if the Government assumes responsibility for specifying the rates of price and wage increase that are in the public interest and for insuring that these rates are not exceeded . . . In short, we reject the Administration's contention that income policies "won't work." It is the policies presently being followed which are a failure. Monetary and fiscal policy, unaided by incomes policy, cannot come to grips with inflation . . . If, in the President's judgment, a temporary price-wage freeze would facilitate the introduction of a comprehensive guidepost policy, Congress has given the President clear authority to impose such a freeze . . . There is now widespread recognition that incomes policy must be a regular part of overall economic policy. Business, labor are ready to support such a policy because they recognize its necessity.

—Democratic majority report on the Joint Economic Committee under Proxmire written on the eve of Nixon's wage-price freeze but released the day after.

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